

Tax Aids, Credits and Refunds

FY 2020-21 Biennial Budget Change Item

Change Item Title: Buffer Credit for Agricultural Land

Fiscal Impact (\$000s)	FY 2020	FY 2021	FY 2022	FY 2023
General Fund				
Expenditures (BWSR)	2,045	0	0	0
Expenditures (Tax Aids, Credits and Refunds)	0	15,800	15,800	15,800
Revenues (Tax Aids, Credits and Refunds)	0	550	550	550
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	2,045	15,250	15,250	15,250
FTEs	0	0	0	0

Recommendation:

The Governor recommends creating an ongoing property tax credit to compensate landowners required to maintain riparian buffers or a water quality equivalent on agricultural land. In addition, the Governor recommends appropriating \$2.045 million from the general fund to the Board of Water and Soil Resources (BWSR) in FY 2020 to provide payments to local soil and water conservation districts (SWCDs). SWCDs will be responsible for reporting landowner noncompliance with the buffer law to counties.

Rationale/Background:

Laws enacted during the 2015 legislative session require riparian buffers or a water quality equivalent to be established on many public waters and drainage systems. Owners of agricultural land abutting public waters must have had buffers in place by November 1, 2017. For land abutting public drainage systems, the deadline was November 1, 2018.

Proposal:

Under this proposal, landowners can claim a property tax credit of \$50 per acre for land required to be maintained as a riparian buffer. Alternatively, landowners can claim an equivalent tax credit if they choose to instead implement an alternative practice with equivalent water quality benefits.

Parcels must meet the following requirements in order to be eligible for the credit:

1. The buffer or alternative practice must be on land classified as 2a agricultural;
2. The buffer or an alternative practice is required under Minnesota Statutes, Section 103F.48, and identified on the state's buffer-protection map;
3. There are no delinquent taxes on the parcel;
4. The land has not been compensated for damages consistent with Minnesota Statutes, Chapter 103E, for the purposes of installing a buffer; and
5. The SWCD has not found the landowner noncompliant with buffer requirements.

Landowners must apply for the riparian buffer credit and certify their amount of eligible land by December 31, 2019. Landowners only apply for the first year they receive the credit. Once approved, the credit will continue into future years. Beginning in 2020 applications for the buffer tax credit will be allowed only when ownership of the land changes or when compliance with at least one of the above conditions changes.

Counties, in consultation with SWCDs, other local water management authorities, and BWSR, will verify applicants' eligibility for the credit. BWSR will distribute a \$30,000 payment from the general fund to MnGeo and \$2.015 million in payments from the general fund to SWCDs in FY 2020. MnGeo will determine which parcels are both subject to the buffer law and are classified as 2a agricultural land. BWSR will provide \$5,000 to \$40,000 each to 89 SWCDs. The size of the payments will depend on the number of parcels BWSR anticipates the SWCD will review for compliance.

The Department of Natural Resources estimates approximately 317,000 acres will be eligible for this credit. Counties will administer the credit, and the Department of Revenue will reimburse the counties. The state estimates the total value of the credit for landowners will be \$15.8 million annually. In addition, the buffer credit reduces property taxes on farm land. Because property taxes can be claimed as income tax deductions for businesses, the buffer credit will reduce income tax deductions and increase revenue to the state by \$550,000 annually.

Equity and Inclusion:

This proposal will not increase inequities.

Results:

The credit will provide property tax relief for landowners complying with the riparian buffer requirement.

Statutory Change(s):

New section – Minnesota Statutes, Section 273.1388

Minnesota Statutes, Section 273.1393